

November, 2002

Doug Connell  
Director, Insurance Services Division  
Opening remarks for seven rate hearings

Good morning. My name is Doug Connell. I am in charge of the Department of Labor and Industries' Insurance Services Division. Some key members of my staff and I are here today to take testimony on a proposal to raise the workers' compensation average premium rate by 40.5 percent effective 2003.

The purpose of today's hearing is to take public comment on L&I's proposed rate increase. Your testimony, either in writing or spoken, will be entered into the official record and will be among the things taken into consideration as a final decision is made.

There will be three parts to this hearing. I will open with a brief explanation of the rate increase and why it's needed. Then we will take your comments. During this portion of the hearing we will not be answering your questions. After the testimony phase of the hearing is over we will close the official record and be available for as long as needed to answer your questions.

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I want to open my comments by saying that we understand that 40.5 percent is a large number. It gets us to the "indicated rate," which, translated, means the amount of income from premiums that we estimate will be needed to cover the costs of the workers' compensation system in 2003.

Some of the assumptions are: that medical costs will rise, on average, 7 percent; that claim frequency will go up just slightly; and, finally, that the financial markets won't drop significantly lower than they already have. If, the financial markets continue to go down, this rate increase may not be enough.

But from what we know right now, the \$371 million this proposed rate increase will bring in maintains the status quo. It does not rebuild the contingency reserve, which will finish this year far below what business and organized labor agreed was prudent. It does not provide for any huge, unforeseen increase in benefits or a catastrophic loss.

Under this proposal, the average rate in Washington will rise to 51.9 cents an hour. Employers will pay 38.8 cents of that; employees will contribute 13.1 cents. Of the additional \$371 million this increase is expected to bring in, employers will pay about \$247 million and workers will contribute about \$124 million.

You may wonder what your industry or company's rates will be. You can get an indication by going to our Website and checking the [proposed rates by industry and class](#). But for your firm's specific rate(s), you need to check with the L&I policy manager who handles your account and they can apply your firm's experience factor.

This is L&I's first general rate increase in eight years. Since 1994, our rates have remained flat or gone down. In the years since then, L&I has returned dividends to employers totaling \$400 million. The agency also lowered the Medical Aid Fund rate from 18 cents an hour to a dime. In all, workers and employers have realized about \$1.8 billion in savings. In fact, if you compare rates in 1994 with what is proposed for 2003, the increase is 17 percent.

We had the luxury of keeping rates low all those years because our investment earnings allowed us to charge premiums that covered only about half of the benefits we were incurring. When the financial markets stopped providing us with that cushion, we were forced to propose rates that are more in line with the benefits we expect to pay out.

Our actuaries suggested a general rate increase last year. Because our contingency reserve still contained over a billion dollars, we decided to not follow that advice and continued to spend down the reserves. As a result, this year the contingency reserve will decline by about \$800 million. It will finish 2002 at around \$276 million - well below the 10 percent of liabilities labor and business both agreed was prudent.

Other rate increase options were considered. One proposal was to increase the contingency reserve to 5 percent of liabilities. We rejected that because it would have required a 96 percent rate increase.

Another proposal called for phasing in this rate increase. We also rejected that approach because it would have further eroded the contingency reserve. A phased-in approach would require 28 percent rate increases annually over each of the next three years. This approach does not include any projected increase in medical inflation or in benefit increases.

Let me close my remarks by saying that at its core, Labor and Industries is an insurance company. And it is facing the same financial pressures every other insurer has to deal with. If California adopts its proposal for January 2003, that state's workers' compensation rates will have risen 80 percent in just two years.

Even with those rate increases, nine private insurance companies in California have stopped writing workers' comp coverage; concluding they either couldn't make money or that the risk of huge losses was too great.

Let me give you one example of how the current climate in the insurance industry affects Washington. One reason California insurers stopped writing workers' compensation policies is that federal law requires that acts of terrorism be covered under workers comp. Those companies chose to leave the market rather than take that risk.

We don't have that option. Typically we buy reinsurance to help absorb any catastrophic losses, such as what happened at the World Trade Center. Since 9/11, the cost of that coverage has increased 200 percent, while the coverage itself is just 25 percent of what it has been.

This public hearing has been scheduled in accordance with the Administrative Procedures Act. Notice of this hearing was published in the Washington State Register Issue 02-19-101 dated October 2, 2002. Notice of this hearing was also sent to all state fund employers in our October newsletter, and information was posted on our Internet web site. If you did not receive a copy of the proposal, copies are available in the back of the room where you entered.

To my left is Milton Vance from Excel Court Reporting. Mr. Vance will be recording today's proceeding.

At this time, I will take testimony from individuals present today who have indicated they would like to comment on the proposed rate increase. When I call your name, please come up to the table in front of me. Before you begin your testimony, I would ask that you restate your name and spell your last name so it will appear correctly in today's hearing record.

But as you can see, there are quite a few people here who want to testify. So I ask that you please be as brief as possible, and please limit your comments to the subject of today's hearing - the proposed rate increase.

If you have not signed up to speak and want to, the sign-up sheet is on the table at the back of the room. Also at the back table are some handouts from L&I that help explain the need for this rate increase.

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This completes the list of individuals who wanted to testify today. Does anyone else wish to testify today? (If someone does raise their hand, ask them to come forward and give their testimony.)

The final decision regarding these rules will take place in the Director's office on November 20, 2002.

This concludes today's hearing. Thank you for attending.